

HOUSE BILL 3302

By Kisber

AN ACT to amend Tennessee Code Annotated, Title 3; Title 4; Title 5; Title 6; Title 7; Title 8; Title 9; Title 12; Title 16; Title 30; Title 36; Title 39; Title 40; Title 45; Title 47; Title 48; Title 55; Title 56; Title 57; Title 61; Title 62; Title 67; Title 68; Title 69; Title 70 and Title 71 relative to taxes, fees, and other revenues.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 67-4-2003, is amended by adding the following language as new subsections (d) and (e):

(d) An affiliated group subject to the tax levied by this part shall register with the department of revenue as an affiliated group, providing such information as is reasonably required by the department. The registration information form shall be filed with the department by August 31, 2002, or within fifteen (15) days after the date the affiliated group becomes subject to the tax, whichever date occurs last. An affiliated group shall be required to so register even though some or all of the corporations included in its filing group may have registered or filed an excise tax return under prior law. In the event that corporate members of an affiliated group cease to be a part of the filing group or in the event that new corporate members join the filing group, the affiliated group shall so advise the department of revenue within thirty (30) days of the event by

filing an amended registration form providing such information as is reasonably required by the department.

(e) The commissioner shall assess a penalty of one hundred dollars (\$100) for each failure to timely register in accordance with the provisions of this section.

SECTION 2. Tennessee Code Annotated, Section 67-4-2004, is amended by adding the following sentence at the end of subitem (16):

In the case of persons or taxpayers required to file franchise and excise tax returns on a combined or consolidated basis, the combined or consolidated group shall be considered a single person or taxpayer;

SECTION 3. Tennessee Code Annotated, Section 67-4-2004, is amended by adding the following as a new subitem:

() "Affiliated group" means any group of corporations engaged in a unitary business that have elected to file a consolidated federal income tax return under the provisions of Section 1501 through 1505 of the Internal Revenue Code; provided, however, that, for purposes of Parts 20 and 21 of this chapter, neither a financial institution, a hospital or hospital company, nor an insurance company shall be considered an affiliated group or affiliated group member. For tax years ending on or after July 1, 2002, affiliated groups shall file consolidated franchise, excise tax returns to the extent of their United States operations. Such consolidated franchise, excise tax returns shall include all corporations that are filing on a consolidated basis for federal income tax purposes if one or more such corporations would be subject to Tennessee franchise, excise taxes if it were filing on a separate entity basis.

SECTION 4. Tennessee Code Annotated, Section 67-4-2006(a), is amended by adding the following new subdivision (4) immediately after subdivision (3) and renumbering the remaining subdivisions accordingly:

(4) For an affiliated group of corporations, “net earnings” for Tennessee excise tax purposes is defined as the federal consolidated taxable income or loss of the affiliated group before the net operating loss deduction and special deductions provided for in Sections 241 through 247 and 249 in the Internal Revenue Code, and as adjusted by subsections (b) and (c) of this section on a consolidated basis.

SECTION 5. Tennessee Code Annotated, Section 67-4-2006(c), is amended by deleting the first sentence of subdivision (2) and substituting instead the following two (2) sentences:

Except for taxpayers required to file excise tax returns on a combined or consolidated basis, each taxpayer is considered a separate and single business entity; therefore, in the case of mergers, consolidations and like transactions, no loss carryovers incurred by the predecessor taxpayer shall be allowed as a deduction from net earnings on the excise tax return filed by the successor taxpayer. Except as otherwise provided in Section 67-4-2018, in no case shall any taxpayer, whether filing its excise tax return on a combined, consolidated, or single entity basis, be permitted to take a loss carryover that it, or a business entity included in its filing group, generated during a tax year in which such entity was not subject to Tennessee franchise, excise taxes and did not file a franchise, excise tax return.

SECTION 6. Tennessee Code Annotated, Section 67-4-2006(c), is amended by deleting the language in subdivision (4) in its entirety and substituting instead the following language:

Taxpayers required to file excise tax returns on a combined or consolidated basis may take any qualified Tennessee loss carryover that was generated by any group member that is in existence as a member of the group at the end of the group’s tax year; provided that such loss carryover has not previously been taken by the member itself before it joined the group or by another group at the time the group member generating the loss was a member of that group; and provided, that the loss carryover shall be subject to the limitations set forth in this subsection. Except as otherwise provided in

Section 67-4-2018, in no case shall any taxpayer filing its excise tax return on a combined or consolidated basis, be permitted to take a loss carryover that a business entity included in its filing group, generated during a tax year in which such entity was not subject to Tennessee excise tax and did not file an excise tax return.

SECTION 7. Tennessee Code Annotated, Section 67-4-2007, is amended by deleting the language in subsection (e) in its entirety and substituting instead the following new language:

Except for taxpayers required to file excise tax returns on a combined or consolidated basis, each taxpayer is considered a separate and single business entity for Tennessee excise tax purposes and shall file its excise tax return on a separate entity basis reflecting only its own business activities.

SECTION 8. Tennessee Code Annotated, Section 67-4-2009(7), is amended by deleting the first sentence of subdivision (A) in its entirety and substituting instead the following:

Except for unitary groups of financial institutions and business entities that have been required to file excise tax returns on a combined or consolidated basis, each taxpayer is considered a separate entity; therefore, in the case of mergers, consolidations and like transactions, no tax credit incurred by the predecessor taxpayer shall be allowed as a credit on the tax return filed by the successor taxpayer. Except as otherwise provided in Section 67-4-2018, in no case shall any taxpayer, whether filing its excise tax return on a combined, consolidated or single entity basis, be permitted to take a credit carryover that it, or a business entity included in its filing group, generated during a tax year in which such entity was not subject to Tennessee franchise, excise taxes and did not file a franchise, excise tax return.

SECTION 9. Tennessee Code Annotated, Section 67-4-2009(7), is amended by deleting the language in subdivision (C) in its entirety and substituting instead the following language:

Taxpayers that have been required or permitted to file excise tax returns on a combined or consolidated basis may take any qualified credit that was generated by any group member that is in existence as a member of the group at the end of the group's tax year; provided that such credit has not previously been taken by the member itself before it joined the group or by another group at the time the group member generating the credit was a member of that group; and provided that, the credit carryover shall be subject to the limitations set forth in this subsection. Except as otherwise provided in Section 67-4-2018, in no case shall any taxpayer filing its excise tax return on a combined or consolidated basis, be permitted to take a credit carryover that a business entity included in its filing group, generated during a tax year in which such entity was not subject to Tennessee franchise, excise taxes and did not file a franchise, excise tax return.

SECTION 10. Tennessee Code Annotated, Section 67-4-2012, is amended by adding the following sentence at the end of subsection (a):

Persons required or permitted to file excise tax returns on a consolidated basis shall compute their excise tax apportionment formula on a consolidated basis.

SECTION 11. Tennessee Code Annotated, Section 67-4-2013, is amended by adding the following language as a new subsection (b) immediately following subsection (a) and by relettering the remaining subsections accordingly:

Notwithstanding any other law to the contrary, when a railroad, motor carrier, rail and motor carrier, pipeline, air carrier or air express carrier is included in a group of business entities required to file a consolidated excise tax return, the consolidated filing group shall use the apportionment formula that would be used on a separate entity basis by the group member that generates the highest dollar amount of gross receipts within the filing group.

SECTION 12. Tennessee Code Annotated, Section 67-4-2015, is amended by adding the following sentence immediately after the first sentence of subsection (b):

Persons required or permitted to file franchise, excise tax returns on a combined or consolidated basis shall compute their quarterly estimated franchise and excise tax payments on a combined or consolidated basis, as the case may be, the combined or consolidated group being the taxpayer.

SECTION 13. Tennessee Code Annotated, Section 67-4-2015, is amended by adding the following new subsections immediately after subsection (f) and relettering the remaining subsections accordingly:

() Notwithstanding any other law to the contrary, an affiliated group that files a consolidated franchise, excise tax return for a tax period ending on or after July 1, 2002, but before July 1, 2003, shall not be penalized if each of its quarterly estimated payments equal twenty-five percent (25%) of seventy percent (70%) of their final tax liability for the tax year.

() Notwithstanding any other law to the contrary, an affiliated group that files a consolidated franchise and excise tax return for a tax period ended on or after July 1, 2002, but before March 1, 2003, and has quarterly estimated payments due before July 1, 2002, and after having timely made such payments finds, because of changes made in the law after the payments were made, that one or more such payments may fall below twenty-five percent (25%) of seventy percent (70%) of the final franchise and excise tax liability for the tax year, may avoid being penalized if any shortage is made up by the due date of the next quarterly payment falling due after July 1, 2002.

SECTION 14. Tennessee Code Annotated, Section 67-4-2015, is amended by adding the following sentences immediately after the first sentence and immediately prior to the second sentence of subsection (g):

Persons required or permitted to file franchise, excise tax returns on a combined or consolidated basis shall make their franchise, excise tax extension requests and compute the payments thereon on a combined or consolidated basis, as the case may be, the combined or consolidated group being the taxpayer. An extension request for a combined or consolidated group must show the names of each business entity that will be included in the filing group.

SECTION 15. Tennessee Code Annotated, Section 67-4-2015, is amended by adding the following language as a new subsection (k):

(k) Notwithstanding any other law to the contrary, for tax years beginning between January 1, 2002, and December 31, 2002, the commissioner of revenue is authorized to waive, in whole or in part, any statutory penalty assessed for the delinquent filing or deficient payment of any quarterly estimated franchise, excise tax declaration payment due for such tax year if, in the judgment of the commissioner or the commissioner's delegate, the taxpayer has acted reasonably and has made a good faith effort to comply with the statutory provisions of this section.

SECTION 16. Tennessee Code Annotated, Section 67-4-2103, is amended by adding the following language as new subsections (d) and (e):

(d) An affiliated group subject to the tax levied by this part shall register with the department of revenue as an affiliated group, providing such information as is reasonably required by the department. The registration information form shall be filed with the department by August 31, 2002, or within fifteen (15) days after the date the affiliated group becomes subject to the tax, whichever date occurs last. An affiliated group shall be required to so register even though some or all of the corporations included in its filing group may have registered or filed a franchise tax return under prior law. In the event that corporate members of an affiliated group cease to be a part of the filing group or in the event that new corporate members join the filing group, the affiliated

group shall so advise the department of revenue within thirty (30) days of the event by filing an amended registration form providing such information as is reasonably required by the department.

(e) The commissioner shall assess a penalty of one hundred dollars (\$100) for each failure to timely register in accordance with the provisions of this section.

SECTION 17. Tennessee Code Annotated, Section 67-4-2105(a), is amended by deleting the words and punctuation "or under the provisions of subsection (b)" immediately after the symbol, numbers and punctuation "§ 67-4-2008".

SECTION 18. Tennessee Code Annotated, Section 67-4-2106, is amended by adding the following sentence at the end of subsection (b):

For persons required to file franchise tax returns on a consolidated basis, net worth is defined as the difference between the total assets less total liabilities of the entire filing group as shown on the books and records of the group kept in accordance with generally accepted accounting principles.

SECTION 19. Tennessee Code Annotated, Section 67-4-2106, is amended by deleting the last sentence of subsection (c) in its entirety and substituting instead the following new language:

Except for taxpayers required or permitted to file franchise tax returns on a combined or consolidated basis, each taxpayer is considered a separate and single business entity for Tennessee franchise tax purposes and shall file its franchise tax return on a separate entity basis reflecting only its own business activities.

SECTION 20. Tennessee Code Annotated, Section 67-4-2107, is amended by deleting subsection (b) in its entirety and relettering the remaining subsection accordingly.

SECTION 21. Tennessee Code Annotated, Section 67-4-2108(a), is amended by adding the following immediately after the first sentence of subdivision (3):

For persons required to file franchise tax returns on a consolidated basis, "property" for purposes of this section shall be the property owned or used by the entire filing group valued at cost less accumulated depreciation computed in accordance with generally accepted accounting principles.

SECTION 22. Tennessee Code Annotated, Section 67-4-2109(e), is amended by deleting the first sentence of subdivision (1) in its entirety and substituting instead the following:

Except for unitary groups of financial institutions and business entities required to file franchise tax returns on a combined or consolidated basis, each taxpayer is considered a separate entity; therefore, in the case of mergers, consolidations, and like transactions, no tax credit incurred by the predecessor taxpayer shall be allowed as a credit on the tax return filed by the successor taxpayer. Except as otherwise provided in Section 67-4-2118, in no case shall any taxpayer, whether filing its franchise tax return on a combined, consolidated, or single entity basis, be permitted to take a credit carryover that it, or a business entity included in its filing group, generated during a tax year in which such entity was not subject to Tennessee franchise, excise taxes and did not file a franchise, excise tax return.

SECTION 23. Tennessee Code Annotated, Section 67-4-2109(e), is amended by deleting the language in subdivision (3) in its entirety and substituting instead the following language:

Taxpayers required to file franchise tax returns on a combined or consolidated basis may take any qualified credit that was generated by any group member that is in existence as a member of the group at the end of the group's tax year; provided that such credit has not previously been taken by the member itself before it joined the group or by another group at the time the group member generating the credit was a member of that group; and provided, that the credit carryover shall be subject to the limitations set forth in this subsection. Except as otherwise provided in Section 67-4-2118, in no

case shall any taxpayer filing its franchise tax return on a combined or consolidated basis, be permitted to take a credit carryover that a business entity included in its filing group generated during a tax year in which such entity was not subject to Tennessee franchise, excise taxes and did not file a franchise, excise tax return.

SECTION 24. Tennessee Code Annotated, Section 67-4-2111, is amended by adding the following sentence at the end of subsection (a):

Persons required to file franchise tax returns on a consolidated basis shall compute their franchise tax apportionment formula on a consolidated basis.

SECTION 25. Tennessee Code Annotated, Section 67-4-2108(a)(6), is amended by adding the following language at the end of subdivision (B) after the words and punctuation “tax base;”:

provided however, in the case of an affiliated group “exempt inventory” means that portion of the taxpayer’s finished goods inventory in excess of fifty million dollars (\$50,000,000);

SECTION 26. Tennessee Code Annotated, Section 67-4-2113, is amended by designating the existing language as subsection (a) and by adding the following language as a new subsection (b):

(b) Notwithstanding any other law to the contrary, when a railroad, motor carrier, rail and motor carrier, pipeline, air carrier or air express carrier is included in a group of business entities required to file a consolidated franchise tax return, the consolidated filing group shall use the apportionment formula that would be used on a separate entity basis by the group member that generates the highest dollar amount of gross receipts within the filing group.

SECTION 27. Tennessee Code Annotated, Section 67-4-2006(b)(1), is amended by adding the following as new subitems (K) and (L):

(K) Any intangible expense or any interest expense related to, or in connection with, a transaction with one or more related members, whether direct or indirect. Nothing in this subitem shall be construed to limit or negate the provisions of §§ 67-4-2014 or 67-4-2112 where deemed appropriate by the commissioner. For purposes of this subitem and subitem (L) below:

(i) "Intangible expense" means:

(a) Expenses related to, or in connection with, directly or indirectly, the acquisition, use, maintenance or management, ownership, sale, exchange, or any other disposition of intangible property to the extent such amounts are allowed as deductions or costs in determining federal taxable income for purposes of subsection (a) above;

(b) Losses related to, or in connection with, directly or indirectly, factoring transactions or discounting transactions; and

(c) Other similar expenses and costs.

(ii) "Interest expense" means amounts allowed as deductions under Section 163 of the Internal Revenue Code for purposes of determining federal taxable income, to the extent such expense is related to, or in connection with, directly or indirectly, the acquisition, maintenance, management, ownership, sale, exchange or disposition of intangible property.

(iii) "Intangible property" means patents, patent applications, trade names, trademarks, service marks, franchise rights, copyrights, research, management, consulting or technical expertise, formulas, designs, patterns, processes, formats, accounts or notes receivable, and similar types of intangible assets.

(iv) "Related member" means an individual or entity that, with respect to the taxpayer during all or any portion of the taxable year, is a related entity, as defined in this subitem, a component member as defined in Section 1563(b) of

the Internal Revenue Code, or is an individual or entity to or from whom there is attribution of stock ownership in accordance with Section 1563(e) of the Internal Revenue Code.

(v) "Related entity" means:

(a) A stockholder who is an individual, or member of the stockholder's family enumerated in Section 318 of the Internal Revenue Code, if the stockholder and members of the stockholder's family own, directly, indirectly, beneficially or constructively, in the aggregate, at least fifty percent (50%) of the value of the taxpayer's outstanding stock;

(b) A stockholder, or a stockholder's partnerships, limited liability companies, estates, trusts and corporations that owns directly, indirectly, beneficially or constructively, in the aggregate, at least fifty percent (50%) of the value of the taxpayer's outstanding stock; or

(c) A corporation, or a party related to the corporation in a manner that would require an attribution of stock from the corporation to the party or from the party to the corporation under the attribution rules of Section 318 of the Internal Revenue Code, if the taxpayer owns, directly, indirectly, beneficially or constructively, at least fifty percent (50%) of the value of the corporation's outstanding stock. The attribution rules on Section 318 of the Internal Revenue Code shall apply for purposes of determining whether the ownership requirements described herein have been met.

(L) Notwithstanding the provisions of subitem (K) above, a taxpayer shall be permitted to deduct an intangible expense or interest expense item to the extent that the corresponding income item of the recipient related member or related entity is subject to a tax based upon or measured by such member's or entity's net income in this state or in

any other state of the United States. For purposes of this subitem, “subject to a tax based upon or measured by such member’s or entity’s net income” means that the related member or related entity recipient of the payment has included it in the computation of its net earnings subject to a state income tax. In the event that the related member or related entity apportions its net earnings subject to a state income tax, then the taxpayer may deduct only the portion of the intangible expense payment or interest expense payment upon which the recipient is subject to a state tax based on or measured by income. In such a case, the amount of intangible expense payment or interest expense payment deductible by the taxpayer for Tennessee excise tax purposes shall be determined by multiplying the expense payment by the recipient’s apportionment ratio in the taxing state. The amount to be added back to federal taxable income in determining the taxpayer’s excise tax base shall be the difference between the entire expense payment and the amount deductible by the taxpayer as an expense for Tennessee excise tax purposes.

SECTION 28. Tennessee Code Annotated, Section 67-4-2006(b)(2), is amended by adding the following as a new subitem (M):

(M) Any item of income included in the computation of a taxpayer’s taxable income for purposes of subsection (a) above, that, due to the provisions of Section 67-4-2006(b)(1)(K) or (L), has not been allowed as an expense deduction for purposes of the excise tax levied by this part.

SECTION 29. Tennessee Code Annotated, Section 67-4-2006(b)(1), is amended by adding the following as a new subitem (M):

(M) Any depreciation permitted as a deduction in computing federal taxable income solely as a result of the provisions of Title 1, Section 101, of the Job Creation and Worker Assistance Act of 2002.

SECTION 30. Tennessee Code Annotated, Section 67-4-2006(b)(2), is amended by adding the following as a new subitem (N):

(N) Any depreciation in excess of that which the taxpayer deducted in computing its federal taxable income that could have been deducted in computing such income if the taxpayer had computed its depreciation under the provisions of Section 168 of the Internal Revenue Code as it existed and applied immediately prior to the passage of Title 1, Section 101, of the Job Creation and Worker Assistance Act of 2002.

SECTION 31. Tennessee Code Annotated, Section 67-4-2007(a), is amended by deleting the language "six percent (6%)" and by substituting instead "six and one-quarter percent (6.25%)".

SECTION 32. Tennessee Code Annotated, Section 67-4-1004, is amended by deleting the language "six and one-half (6 ½) mills" in subsection (a) and by substituting instead the language "twenty-one and one-half (21½) mills".

Tennessee Code Annotated, Section 67-4-1004, is further amended by adding the following new subsection:

(c) Any wholesale dealers, jobbers, tobacco distributors, and retail dealers having cigarette tax stamps, affixed and unaffixed, in their possession on July 1, 2002, shall not be required to pay the additional cigarette tax resulting from the increase in tax rate from six and one-half (6 ½) mills to twenty-one and one-half (21½) mills on cigarettes to which such stamps in their possession are or shall be affixed.

SECTION 33. Tennessee Code Annotated, Section 67-4-1005, is amended by deleting the language "six percent (6%)" and by substituting instead the language "ten and eight-tenths percent (10.8%)".

SECTION 34. Tennessee Code Annotated, Section 57-3-302(a), is amended by deleting the language "one dollar and ten cents (\$1.10)" and by substituting instead the language "one dollar and ninety-eight cents (\$1.98)".

SECTION 35. Tennessee Code Annotated, Section 57-3-302(b) is amended by deleting the language "four dollars (\$4.00)" and by substituting instead the language "seven dollars and twenty cents (\$7.20)".

SECTION 36. Tennessee Code Annotated, Section 57-5-201(a)(1), is amended by deleting the language "three dollars and ninety cents (\$3.90)" and by substituting instead the language "seven dollars and two cents (\$7.02)".

SECTION 37. Tennessee Code Annotated, Section 57-6-104(c)(5), is amended by inserting the language "or the state privilege tax levied in Tennessee Code Annotated, Section 57-5-201" immediately following the words "excise tax" in the first sentence.

SECTION 38. Tennessee Code Annotated, Section 67-6-202(a), is amended by deleting the language "at the rate of six percent (6%) of" and by substituting instead the language "on" and by adding at the end of the subsection the language "The tax shall be levied at the rate of six percent (6%); provided, however, effective August 1, 2002, the local option sales tax provided for in title 67, chapter 6, part 7, shall be two and three-quarters percent (2.75%) statewide. In those jurisdictions in which on July 1, 2002, the rate of the local option sales tax in effect or operative under title 67, chapter 6, part 7, was less than two and three-quarters percent (2.75%), the difference between two and three-quarters percent (2.75%) and the local rate in effect or operative on July 1, 2002, applied to the first one thousand six hundred dollars (\$1,600) of the sale or use of any single article of personal property shall be a state tax and those funds in excess of the local rate in effect or operative on July 1, 2002, shall be deposited in the state general fund. There is levied a tax at the rate of two and three-quarters percent (2.75%) on the amount in excess of one thousand six hundred (\$1,600), but not more

than five thousand dollars (\$5,000), on the sale or use of any single article of personal property which shall be a state tax and those funds shall be deposited in the state general fund.”

SECTION 39. Tennessee Code Annotated, Section 67-6-203, is amended by deleting the language "six percent (6%)" in subsection (a) and by substituting instead the language "the tax levied on the sale of tangible personal property at retail by the provisions of § 67-6-202".

SECTION 40. Tennessee Code Annotated, Section 67-6-204, is amended by deleting the language "six percent (6%)" wherever it appears in subsections (a) and (c) and by substituting instead the language "the tax levied on the sale of tangible personal property at retail by the provisions of § 67-6-202".

SECTION 41. Tennessee Code Annotated, Section 67-6-205, is amended by deleting the language "six percent (6%)" in subsection (a) and by substituting instead the language "the tax levied on the sale of tangible personal property at retail by the provisions of § 67-6-202".

SECTION 42. Tennessee Code Annotated, Section 67-6-702, is amended by adding the following as a new subsection (h):

(h) In any jurisdiction in which the local rate in effect or operative under title 67, chapter 6, part 7, is less than two and three-quarters percent (2.75%) on July 1, 2002, the rate shall be two and three-quarters percent (2.75%) with the difference between the local rate in effect or operative under title 67, chapter 6, part 7, on July 1, 2002, and two and three-quarters percent (2.75%) applied to the first one thousand six hundred dollars (\$1,600) of the sale or use of any single article of personal property being a state tax pursuant to Section 67-6-202 and remitted to the state for deposit in the state general fund as provided for in title 67, chapter 6, part 5 and § 67-6-103. The tax levied at the rate of two and three-quarters percent (2.75%) of the sale or use of an article in excess of one thousand six hundred dollars (\$1,600), but not more than four thousand eight hundred dollars (\$4,800), is a state tax pursuant to Section 67-6-202 and shall be

remitted to the state for deposit in the state general fund as provided for in title 67, chapter 6, part 5 and § 67-6-103.

SECTION 43. Notwithstanding the provisions of Sections 38, 39, 40, 41, and 42 of this act to the contrary, sales to or use by a contractor, subcontractor, or material vendor of tangible personal property, including rentals thereof and labor or services performed in the fabrication, manufacture, delivery, or installation of such tangible personal property when such property is sold or used solely in performance of a lump sum or unit price construction contract entered into prior to July 1, 2002, or awarded by the state or a political subdivision pursuant to a bid opening which occurred prior to July 1, 2002, shall be subject to tax at the state rate of six percent (6%) plus the local option sales tax rate in effect on July 1, 2002, in the county or municipality in which the property is sold or used. In addition, sales to or use by a subcontractor of tangible personal property, including rentals thereof and labor or services performed in the fabrication, manufacture, delivery, or installation of such tangible personal property when such property is sold or used solely in performance of a written subcontract entered into prior to September 1, 2002, if such subcontract is made pursuant to a general contract qualifying for the reduced rate of tax as set out above, shall be subject to tax at the rate of six percent (6%) plus the local option sales tax rate in effect on July 1, 2002, in the county or municipality in which the property is sold or used. Any vendor making such sales to any such contractor or subcontractor shall collect tax at the rate set in Sections 38, 39, 40, 41 and 42 of this act during the time that such rate is in effect. Any such contractor or subcontractor paying the rate set in Sections 38, 39, 40, 41 and 42 may then file a claim with the commissioner of revenue for a refund of any such tax paid to any of the contractor's vendors at a rate in excess of six percent (6%) plus the local option sales tax rate in effect on July 1, 2002, in the county or municipality in which the property is sold or used. For purposes of this subsection the term "lump sum or unit price construction contract" means a written contract for the construction of improvements to real property under which the amount payable to the contractor, subcontractor or material vendor is fixed without

regard to the costs incurred in the performance of the contract. The provisions of this paragraph shall not be construed to increase the rate of tax imposed pursuant to the provisions of Tennessee Code Annotated, Section 67-6-206.

SECTION 44. Tennessee Code Annotated, Section 67-4-506, is amended by deleting the section in its entirety.

SECTION 45. Tennessee Code Annotated, Section 67-6-102(24), is amended by adding the following language as a new subdivision (I):

(I) "Retail sale" or "sale at retail" includes sales by which merchandise is sold or delivered to the user through the use of a vending machine.

SECTION 46. Tennessee Code Annotated, Section 67-4-507(b), is amended by deleting subdivision (1)(C) in its entirety.

SECTION 47. Tennessee Code Annotated, Section 67-6-212(a), is amended by deleting the word "and" at the end of subdivision (3).

Tennessee Code Annotated, Section 67-6-212(a), is further amended by deleting the punctuation "." at the end of subdivision (4) and by substituting instead the following language:

; and

(5) Receipts from coin-operated amusement devices subject to tax under § 67-4-507.

SECTION 48. Tennessee Code Annotated, Section 67-6-330(a), is amended by deleting subdivision (10) in its entirety and by renumbering subsequent subsections accordingly.

SECTION 49. Tennessee Code Annotated, Section 67-6-329(a), is amended by deleting subdivision (21) in its entirety and by renumbering subsequent subsections accordingly.

SECTION 50. Tennessee Code Annotated, Section 67-6-226, is amended by deleting the subsection in its entirety and by substituting instead the following:

Notwithstanding other provisions of this chapter to the contrary, state tax at the rate of eight and three-quarters percent (8.75%) on each sale at retail is imposed with respect to fees for subscription to, access to, or use of television programming or television services provided by a cable television service provider authorized pursuant to title 7, chapter 59, or cable television service provider authorized pursuant to title 7, chapter 59, or by a provider of wireless cable television services (multipoint distribution service/multichannel multipoint distribution service) offered for public consumption, except that such state tax shall apply only to service charges or fees in an amount less than twenty-seven dollars and fifty cents (\$27.50).

SECTION 51. Tennessee Code Annotated, Section 67-6-103(f), is amended by deleting the language "in excess of fifteen dollars (\$15.00) but"

Tennessee Code Annotated, Section 67-6-103(f), is further amended by deleting "at the state rate of six percent (6%) in accordance with the provisions of part 2 of this chapter as well as pursuant to the local option revenue act in part 7 of this chapter," and by substituting instead "at the rate of the tax levied on the sale of tangible personal property at retail by the provisions of § 67-6-202,".

SECTION 52. Tennessee Code Annotated, Section 67-6-227, is amending by deleting language "eight and one-quarter percent (8.25%)" and by substituting instead "eight and three-quarters percent (8.75%)".

SECTION 53. The commissioner of revenue is authorized to promulgate rules in accordance with the provisions of Tennessee Code Annotated, Title 4, Chapter 5, to implement and administer the provisions of this act. This authority should be interpreted broadly to enable the commissioner to give effect to the legislative intent. Such rules, to the extent deemed necessary by the commissioner for timely implementation of this act, shall include public necessity and emergency rules.

SECTION 54. Sections 1 through 28 shall take effect upon becoming law and shall apply to tax years ending on or after July 1, 2002, the public welfare requiring it.

Sections 29 and 30 shall take effect upon becoming law and shall apply to excise tax returns filed for tax years ending on or after June 30, 2002, the public welfare requiring it.

Section 31 shall take effect on August 1, 2002, and shall apply to tax years beginning on or after that date, the public welfare requiring it

Sections 32 through 37 shall take effect on August 1, 2002, the public welfare requiring it.

Sections 38 through 52 shall take effect on August 1, 2002, the public welfare requiring it.

All other provisions of this act shall take effect upon becoming law, the public welfare requiring it.